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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 09/25/07

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ARTICLES:

- (1) New LDP leadership launched; Structural reform course might be modified; Finance Ministry pins hopes on Tanigaki, Nukaga

New LDP President Yasuo Fukuda launched yesterday the new LDP leadership including Secretary General Bunmei Ibuki, Policy Research Council Chairman Sadakazu Tanigaki in the run-up to the prime ministerial election today, in which Fukuda is certain to be named the nation's 91st prime minister. Whether the new administration will continue the structural reforms laid down by former Prime Ministers Junichiro Koizumi and Shinzo Abe remains to be seen. In his campaign pledges, Fukuda promised to study such options as freezing the planned increase in elderly people's share of medical payments and a tax system allowing greater local autonomy in consideration of the socially weak and local districts, while declaring that he would continue some basic policies, such as fiscal reconstruction. Attention is focused on the extent to which Fukuda can break away from the Abe administration's economic policies once he becomes prime minister.

Senior Finance Ministry officials welcomed Tanigaki's appointment as policy research council chairman and Fukushima Nukaga's expected reappointment as finance minister because they are receptive to fiscal reconstruction. A Finance Ministry official also took this view: "They also seem to exhibit excellent abilities to coordinate views in dealing with opposition parties on tough issues, such as hiking taxes."

In running the LDP presidential election last year, in which he was defeated by Abe, Tanigaki contended that the consumption tax must be raised to up to 10 PERCENT by around 2015 to finance social security.

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Highly alarmed at the nation's long-term debt equivalent to 150 PERCENT of GNP, Tanigaki is eager to attain a black-ink primary balance by pursuing an approach combining the Koizumi- and Abe-style policy course that deeply cut public works projects and tax grants and tax hikes. Nukaga, on the other hand, shows an understanding of the need for public works projects in order to redress disparities between urban and rural areas. The appointments of Tanigaki and Nukaga are likely to put a stop to one-sided spending cuts.

Fukuda's key policies also include freezing the government's plan to increase elderly people's share of medical payments and taking bold measures to eliminate the shortage of doctors.

Starting in next April, the government plans to increase the portion of medical expenses borne by people between ages of 70 and 74 from the current 10 PERCENT to 20 PERCENT. Fukuda's plan would necessitate the central and local governments to come up with additional financial resources totaling 120 billion yen. With his another pledge of eliminating the lack of doctors also remaining unclear, Fukuda's medical reform plan is likely to be pressed for a fundamental review.

Following the ruling bloc's crushing defeat in the July House of Councillors election, the New Komeito is calling for tax reforms, such as reallocating the corporate enterprise tax and the corporate inhabitant tax among prefectures as a means of reducing disparities between urban and local areas. In the upcoming year-end tax reform, Fukuda is likely to be pressed for new responses to the New Komeito's call along with his campaign pledge of a tax system and tax grants allowing local independence.

A working-level study is underway between the Finance Ministry and the Internal Affairs and Communications Ministry on disparities in tax revenues. Like the New Komeito, the Finance Ministry is studying the plan to distribute the two local corporate taxes in terms of prefectural population and the number of business establishments. The Internal Affairs Ministry is also advocating a plan to generously provide local areas with consumption tax revenues that are essentially unaffected by cyclical changes, as well as the so-called hometown tax scheme, under which taxpayers can allocate a certain amount of their residential tax payment to their hometown.

Attention is focused on the future course of coordination between the two ministries.

Markets players cool toward caretaker government

With many market players having already factored in the inauguration of Prime Minister Fukuda, the establishment of a Fukuda administration is likely to have a limited impact on the stock markets. A leading securities firm source indicated, however, that the appointment of Tanigaki, who has been skeptical about the structural reform course since the Koizumi administration, as LDP policy chief might dampen foreign investors' desire to buy, thereby resulting in sluggish stock prices depending on the new administration's policy. At the same time, expectations are strong among market players, with Nomura Securities Co. market analyst Masahiko Sato saying, "Mr. Fukuda has a stronger sense of stability and balance than Mr. Abe."

From mid- to long-term perspectives, a Fukuda administration is bound to face rough going in the opposition-controlled Upper House. Credit Suisse Chief Economist Hiromichi Shirakawa said: "The Fukuda

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cabinet will be a caretaker cabinet until the next general election. Reform will not advance under such a cabinet." Daiwa Securities SMBC Co. Equity Marketing Department chief Kazuhiro Takahashi's observation was equally chilly: "Chances are slim for the new administration to put vital economic policies boosting stock prices into action, such as a consumption tax hike."

Japanese stocks have been in an adjustment phase due to America's subprime loan crisis. The predominant view is that Japanese stocks depend on reduced global credit uncertainty and the trends of the US economy. The trends of foreign investors, who account for 70 PERCENT of trading in the domestic markets, are also vital. Norihiro Fujito of Mitsubishi UFJ Securities said: "If a Fukuda cabinet immensely increases government spending in the name of redressing socioeconomic disparities, it would turn off foreign investors, taking it as a setback from fiscal reconstruction."

(2) Market response to election of Fukuda as LDP president:
"Stabilize the government first"; No real substance in economic policy; Concern about structural reform backsliding

ASAHI (Page 9) (Slightly abridged)
September 25, 2007

The prevalent view among market players is that the new president of the Liberal Democratic Party of Japan (LDP) should first manage his administration in a stable manner. That is because although the election of the LDP president has put a halt to the political vacuum for the time being, the opposition camp's dominance in the Upper House remains unchanged. Some are concerned that the LDP might step back to its former self, which attached importance to the interests of party factions. If the reform policy, including fiscal reconstruction, backslides, new disturbing factors might appear in the market, which is now being rocked by the subprime housing loan issue in the US.

The Nikkei average on the Tokyo Stock Exchange has surged about 500 yen over a week or so since Prime Minister Abe's announcement of his resignation. A view that a shift to a new administration as well as an interest rate cut in the US would stabilize the political situation appears to have contributed to the rise.

The prevalent view is that since the market had already taken into consideration the assumption of power by Fukuda, there would be no major impact on the Tokyo market at the beginning of the week. Even so, voices placing expectations on the Fukuda administration are growing, because a stable administration inspires the market with confidence, as Hidehiko Fujii of the Japan Research Center put it.

Among past administrations since around 1995, under the Hashimoto and Mori cabinets stock prices dropped when they resigned, compared with the level posted when they took office. In contrast, stock prices were higher when Obuchi, Koizumi and Abe stepped down,

compared with the level marked when they took office. During the Koizumi cabinet, the Nikkei average temporarily dropped to the 7,600 yen level, but it went up to the 15,500 yen level when he resigned. The trend indicates that the Koizumi reform drive, including deregulation, obtained a certain amount of praise from the market.

The key is the movements of foreign investors, who hold a majority in terms of the amount of stock trading on the TSE. Koichiro Nishio of Nikko Cordial Securities has believes that foreigners tend to

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give high marks to an administration like the Koizumi cabinet, which send clear-cut messages.

In this regard, some take a cool view, with Shinya Ueno of Mizuho Securities saying, "Whoever becomes the president of the LDP, he would not be able to display political leadership under the present market environment."

Consumption tax a subject of high interest

As a matter of fact, many economists are unhappy with Fukuda's economic policy, with one noting, "His economic policy is unclear." Fukuda's statement on economic policy made during the LDP presidential campaign lacked specifics out of consideration to various factions that supported him.

How the new administration will deal with spending cuts and a consumption tax hike is a subject of high interest in the market. It is said that a consumption tax hike, which could take the steam out of the domestic economy, putting a dent in consumption, could trigger yen-selling.

Taro Aso, another contender in the presidential election, fought well. Hiromichi Shirakawa of Credit Swiss, noted, "Mr. Aso brought to the forefront a policy of giving priority to local economies. He gained an unexpectedly large number of votes. The result shows that LDP members are concerned they cannot fight the next election unless they attach importance to regional areas."

Fukuda's so-called balanced approach is the cause of barring market players from placing expectations of reform, with Kenichi Kawasaki of Lehman Brothers noting that that the LDP has returned to its former self, as can be seen in Mr. Fukuda's attaching importance to coordination with government offices, and Nishio saying, "Giving excessive consideration to income disparities and regional economies would backslide fiscal and political structural reforms."

Impact on interest hike

The inauguration of the new administration and the selection of a cabinet line-up will likely affect the future monetary policy of the Bank of Japan, which is searching for the best time for an interest rate hike. Shirakawa pointed out, "Chances are that if the Fukuda administration clarifies its vision for fiscal reconstruction, political checks will heighten against an interest rate hike by the BOJ, as it could lead to an increased fiscal burden." However, the general view is that whether to raise interest rates will be determined by the movements of the global monetary market triggered by the subprime loans, according to Hideo Kumano of Dai-Ichi Life Insurance Economic Research Center.

Another focus of attention is the impact on the selection of a successor to BOJ Governor Toshihiko Fukui, who finishes his term next March. The cabinet appoints a BOJ governor with the consent of the Lower and Upper Houses. However, if the Upper House, where the opposition holds a majority, opposes the selection of a person proposed by the cabinet, then the proposal will be scrapped.

The BOJ is holding out hope that Vice Governor Toshiro Muto, a former Finance Ministry official, will be promoted. When the Koizumi administration picked Muto as vice governor in 2003, Fukuda was the chief cabinet secretary. Expectations of the selection of Muto will

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likely heighten. However, the DPJ opposed the selection of Muto as vice governor, because he is a former bureaucrat.

Nishio views that since Mr. Fukuda must obtain cooperation from the DPJ in managing the government, he probably does not want a fight over the selection of a BOJ governor. On the other hand, there is also a strong view that since if the DPJ opposes anything proposed by the ruling camp it would not be able to gain support from the public, it would try to find a common settlement line with the new administration, as Fujii put it.

(3) DPJ Secretary General Hatoyama hopes for quick response from US Embassy

SANKEI (Page 5) (Full)
September 22, 2007

Yukio Hatoyama, secretary general of the main opposition Democratic Party of Japan (DPJ), stated in a press conference on Sept. 21 on his party's request for the US Embassy in Tokyo to provide information about the activities of US warships that have received fuel from the Maritime Self-Defense Force in the Indian Ocean: "The Embassy is trying to respond in a careful manner. We hope the Embassy will swiftly provide the information so that we will be able to use it at questioning sessions and Budget Committee sessions in the upcoming Diet." Hatoyama explained how his party made the request to the US Embassy: "The party's International Affairs Bureau chief Tetsundo Iwakuni verbally conveyed it."

(4) Prime Minister Abe offers apology for announcing resignation at worst timing; He has not regained 5 kg he lost

YOMIURI (Page 1) (Full)
September 25, 2007

Prime Minister Shinzo Abe, appearing publicly for the first time since his hospitalization, explained yesterday his health condition and the real reason for the sudden announcement on Sept. 12 of his intention to step down. He reiterated words of apology, saying, "I want to apologize to the public." He did not mention the major reason for his decision to resign, however. He held the press conference a day before his cabinet is to resign en masse. Although he expressed his eagerness for cooperating with the new LDP president as a Diet member, questions about Abe's accountability were raised from some experts.

It was after 5:00 p.m. when Abe showed up at the press conference room in Keio University Hospital in Shinanomachi, Tokyo. He entered the room slowly and sat on a chair. He was looking down at notes while his doctors were being introduced. He apparently grew utterly emaciated. "I was unable to have a chance to explain since my condition did not make any recovery as I expected," rasped Abe, who has been hospitalized since Sept. 13.

The prime minister said feebly:

"I wanted to apologize to the people before stepping down as prime minister. I announced my resignation at the worst timing soon after delivering a policy speech. I was unable to respond adequately to the expectations of the public."

At the press conference on Sept. 12 when he announced his intention

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to quit, he cited Democratic Party of Japan (DPJ) President Ichiro Ozawa's refusal of his request for a meeting as a reason for his intention to resign. Abe, however, essentially retracted it yesterday. He stated: "I apologize for not referring to the main cause of my decision and for failing to convey my real intention to the public." He added: "I should have mentioned it at that time." Abe, who had suffered from such factors as his party's setback in the July Upper House election, and the resignation of the agriculture minister even after he reshuffled his cabinet, said yesterday: "I felt like I'd reached the limit of my strength." One of his doctors also explained his condition: "The prime minister

suffered from lack of appetite due to acute gastroenteritis during his overseas trip. He then grew weak." The doctor revealed that Abe has been unable to regain his weight since he lost 5 kg.

Watching Abe's press briefing, many in his hometown, Shimonoseki City in Yamaguchi Prefecture, expressed their hopes for Abe to recover as quickly as possible. Akio Ito, 71, chairman of Abe's support group, worried about Abe, saying: "I'm concerned about his lifeless voice. I want him to think first of recovering his health as early as possible." He expressed his determination to continue to his political career. Regarding this, Abe's support group secretary general Okamoto, 60, commented: "Since he said that he wanted to continue his political career, I'm determined to support him."

Keio University Prof. Yasunori Sone made this comment:

"I understand that he reached the limits of his strength physically and psychologically. He should have explained his health condition as the reason for his resignation when he announced his intention. He as prime minister of the country missed the right timing to fulfill his accountability. The fact that he did not appoint an acting prime minister during his hospitalization exposed a lack of the Prime Minister's Official Residence's crisis management. His responsibility for abandoning the prime minister's job in this way is grave. I think his political career will be difficult in the future."

Nobuko Hiwasa, external board member of Snow Brand Milk Products Co., who used to serve as chief of secretariat of the National Liaison Committee of Consumers' Organizations, commented:

"It never should occur that the top leader of a company does not explain the real reason for trouble when the trouble affects consumers. He should have said at that time if he was really sick. Since he failed to do so, the public was confused and speculation was rampant. Honesty is required in any circle. I think that Abe made that decision because he did not look toward the public."

(5) Editorial: Ozawa's logic getting into a scrape with UNSC resolution

NIKKEI (Page 2) (Full)
September 21, 2007

The United Nations Security Council adopted Resolution 1776, which extends the International Security Assistance Force's mission in Afghanistan for one year and which expresses "appreciation" to multinational naval forces for their maritime interdiction operations conducted in the Indian Ocean with Japan's participation. The leading opposition Democratic Party of Japan (Minshuto) remains committed to standing against continuing the Maritime Self-Defense

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Force's refueling activities in the Indian Ocean. However, the UNSC resolution adopted this time works to the disadvantage of DPJ President Ichiro Ozawa, who has been asserting that the MSDF's refueling mission is not based on any UN resolution.

The resolution was adopted with a concurring vote of 14 countries excluding Russia, which abstained from voting. It is not a unanimous resolution, so some people seem to take it that this would work to the DPJ's advantage. When the Gulf War broke out, Ozawa, basing his standpoint on UNSC Resolution 678, asserted that Japan should send the Self-Defense Forces to participate in the multinational forces. However, China abstained from voting on that resolution. Ozawa will lose consistency if he makes light of Resolution 1776 on the grounds that it is not a unanimous resolution.

Yoshio Hachiro, foreign minister in the DPJ's shadow cabinet, stresses the DPJ's posture against continuing the MSDF's refueling mission, taking the position that the UNSC resolution this time does not directly provide for Japan's SDF activities at all. This kind of assertion is understandable from the context of domestic politics. The question is how far it will be convincing in the international community and in Japan now that the UNSC has adopted a new resolution.

As noted by Hachiro, UNSC Resolution 1776 does not directly touch on the SDF's activities. However, the international community has no powerful law enforcers. International law is not the same as domestic laws. Unlike a treaty between one country and another, UNSC resolutions go no further than to politically bind UN members in many cases. If a UNSC resolution is vague in substance, it is important to interpret what it means on the whole.

UNSC Resolution 1776 expressed appreciation for the multinational naval forces' maritime interdiction operations. What does this mean? The UNSC has approved their activities. In commonsense terms, that is why the UNSC expressed its appreciation. The UNSC, if it is against their activities, is unlikely to adopt a resolution that expresses its appreciation for such activities.

Accordingly, the DPJ's logic, which takes the position that the SDF's refueling mission is groundless because it is not based on a UN resolution, cannot but fall into a jurist argument that makes no sense to the general public if the DPJ tries to carry it through, although it has yet to collapse completely.

The Diet will elect Japan's new prime minister next week. The DPJ would find it even more difficult than ever to uphold its logic in parliamentary inter-party talks.

The DPJ has stood against the SDF's refueling mission, so the DPJ should carry through its standpoint against it to the last. That is a sincere response to its supporters. One may think in this way. There can be such a way of thinking in Japan, indeed. At the same time, however, the DPJ should also listen in a sincere manner to the international community's expectations shown in the UNSC resolution. The DPJ should take it for granted as a political party responsible for state affairs in Japan living in the international community. To that end, the ruling and opposition parties should rack their brains.

(6) Editorial: Japan might be labeled as force of resistance to preventing global warming

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NIKKEI (Page 2) (Full)
September 25, 2007

Soon after the Fukuda administration is launched today, it will find itself facing difficult international talks in which both national and global interests are complexly interrelated. These will be political negotiations aiming at the period after the Kyoto Protocol expires in 2012 by creating a new regime that would include the US, China and other major gas emitters. For Japan, the question is how it should combat global warming while keeping the economy growing.

The United Nations kicked off its meeting on climate change in New York on Sept. 24. The Japanese prime minister did not attend the meeting this year, although the prime minister initially should express Japan's views on the international stage and discuss ways to prevent global crisis with other countries' leaders.

From dialogue to negotiations

The conference brings together leaders from 80 countries, including United States President Bush and French President Sarkozy. Former Prime Minister Yoshiro Mori represents the Japanese government. Prime Minister Shinzo Abe set forth the initiative, "Invitation to Cool Earth 50," in the Heiligendamm Summit in June calling for halving global greenhouse gas emissions by 2050 and earned a certain level of international praise for it. Set off by Abe's sudden resignation, Japan's presence on the international stage has begun to decline.

The high-level UN conference is indisputably aimed to shift such tasks as halving global gas emissions by 2050 and of creating a post-Kyoto framework from "the current dialogue stage to the negotiating stage," in which rules and goals will be worked out.

China still insists that industrialized countries alone should be required to cut greenhouse gas emissions. The US government also remains opposed to setting any goals for gas-emission cuts. In the declaration issued at the Asia-Pacific Economic Cooperation (APEC) forum and on other occasions, only goals to strive for were worked out, in a sense, as products of dialogue.

United Nations Secretary General Ban Ki-moon aims to start full-scale negotiations at the 13th session of the Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC) in Bali, Indonesia, in December, reflecting countries' political stances clarified by their leaders in the high-level conference. Following the high-level meeting, a meeting of major greenhouse gas emitters will be held in Washington starting on Sept. 127. This is a valuable occasion for industrialized countries and emerging countries such as China and India to sit at the same table, but many countries have decided not to send cabinet ministers, for the reason that the meeting is unlikely to produce specific results because it will be held under the lead of the Bush administration.

Negotiations on global warming will be held at various levels, including the COP13 and the Lake Toya Summit in Hokkaido next July. Besides the serious damage from Abe's resignation, Japan has another weak point that might cause questions about Japan's ability as the chair of the Lake Toya Summit. That is the fact that Japan remains unable to clearly speak of its own reduction goals.

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In Japan, the business world and the government agencies responsible for economic policies are absolutely opposed to the idea of adopting an emissions trading system based on a cap-and-trade program that would set limits on companies' gas emissions. They are also against an introduction of nation-specific reduction targets. Looking at Japan's negative stance, other countries might define Japan as a force of resistance.

It was said that since the Japanese industry has achieved energy saving most conspicuously in the world, it will be impossible to hammer out more energy-conservation measures. But this myth might have already shattered. Japan has already been overtaken by Germany and Britain in terms of energy efficiency and emission consumption rate in many of its industries.

Nippon Keidanren (Japan Business Federation) and the Ministry of Economy, Trade and Industry (METI) have yet to present any reasons for their opposition to emissions trading and total volume targets. In the US, a law that would set numerical targets for cutting its greenhouse gas emissions will surely be enacted under a post-Bush administration. Many of the bills now put on the agenda set numerical targets that are not significantly different from those of the European Union (EU). Naturally, they are numerical figures worked out on the premise of introducing the emissions trading system. Australia has also come up with similar figures.

Flexible goals for emerging nations

Among the industrialized countries, only Japan has still allowed companies to draw up their own voluntary action programs based on the conventional convoy system, without setting any total volume targets. Japan has yet to allow emissions trading, either. Even so, Japan will inevitably be requested to transfer technology and offer financial aid in the future. How can a nation that cannot speak of its future targets assume the initiative in cutting greenhouse gas emissions?

Emerging nations will not be punished even if they fail to achieve their targets. Furthermore, study is underway to set a target-setting framework under which if they succeed in meeting their targets, they will be allowed to sell that portion under the emissions-trading system. By introducing sector-specific goals, instead of nation-specific ones, emerging countries will find it easier to join the framework.

Views are split over whether to push ahead with negotiations on a regime for industrialized countries and those for emerging countries

separately. But the major principle in a treaty is "common but a different level of responsibility."

It is as clear as daylight that it is impossible for Japan to cut its emissions of greenhouse gases by 60 to 70 PERCENT from current levels without emissions trading. It is believed that Nippon Keidanren and METI are now aware of the need for a policy switch. What is needed now in Japan is a political judgment. The government must try to prevent the force incompressive of the scientific evidence of global warming from undermining Japan's national interests.

(7) TOP HEADLINES

Asahi, Mainichi, Yomiuri, Nikkei, Sankei & Tokyo Shimbun:

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Fukuda names faction leaders Ibuki, Tanigaki, Nikai, and Koga to party executive posts, Machimura as chief cabinet secretary

Akahata:

All JCP members elected in Higashi Osaka assembly election

(8) EDITORIALS

Asahi:

(1) End of Abe cabinet: Results and setbacks of right-wing government

(2) Increasing poverty: More countermeasures needed

Mainichi:

(1) Appointments of LDP executives: How will party policies, management change?

(2) Record high oil prices: Speculative funds pouring in

Yomiuri:

(1) Will LDP return to faction-led politics?

(2) Sale of insurance policies at banks: Complete removal of ban serves to expedite reform in industry

Nikkei:

(1) Japan might be labeled a "force of resistance" preventing global warming

Sankei:

(1) New LDP executives expected to achieve results through coordination and resolution

(2) Academic aptitude test: Fair competition leads to improving scholastic ability

Tokyo Shimbun:

(1) LDP returns to old regime, with appointments of faction leaders

(2) Transparency required in selecting Chinese Communist Party leader

Akahata:

(1) Lawsuit on drug-induced hepatitis C: Give top priority to rescuing victims

SCHIEFFER